

# REVIEW RESOURCES

## Lesson 10: Financial Management: Resource Allocation Process

### Defense Appropriations

Appropriations have their basis in the Constitution. Article 1, Section 9, states that no money can be withdrawn from the U.S. Treasury except as a result of appropriations made by law.

An appropriation is the means of providing budget authority or funding for a program.

 [Back to Topics List](#)

 [Back to Top](#)

### DOD Appropriations Categories

Congress provides the DOD with five major appropriations categories of funds, often referred to as "colors of money." Each category is intended to fund specific items.

The five categories are:

- [Research, Development, Test, and Evaluation \(RDT&E\)](#)
- [Procurement](#)
- [Operations and Maintenance \(O&M\)](#)
- [Military Personnel \(MILPERS\)](#)
- [Military Construction \(MILCON\)](#)

### Research, Development, Test, and Evaluation (RDT&E)

The RDT&E appropriations category funds the following types of activities:

- Development of equipment, material, or computer application software
- Developmental Test and Evaluation (DT&E)
- Initial Operational Test and Evaluation (IOT&E)
- Operational costs for R&D dedicated installations

### Procurement

The Procurement appropriations category funds the following types of items and activities:

- Purchase of major end items and defense systems.
- Initial issue of spares for above items.
- All costs necessary to deliver a useful end item intended for operational use or inventory.

### Shipbuilding and Conversion, Navy (SCN)

Part of the Procurement appropriations category is broken out separately because it has a longer "obligation" period than other procurement accounts. Shipbuilding and Conversion, Navy (SCN) is used to fund procurements and overhaul Naval ships.

### Operations and Maintenance (O&M)

The O&M appropriations category funds the following types of items and activities:

- Day-to-day operations
- Headquarters operations
- Civilian salaries
- Travel
- Fuel
- Minor construction
- Training and education
- Expenses of operational military forces
- Base operations support
- Recruiting

### Military Personnel (MILPERS)

The MILPERS appropriations category funds the following types of items:

- Pay and allowances of active duty and reserve military personnel
- Permanent Change of Station (PCS) moves
- Training in conjunction with PCS moves
- Subsistence
- Bonuses
- Retired pay accrual

### Military Construction (MILCON)

The MILCON appropriations category funds the following types of items:

- Major military construction projects
- Construction of military schools
- Construction of facilities
- Construction of bases

 [Back to Topics List](#)

 [Back to Top](#)

### Obligation Periods

Each appropriation has a legal time limit, or obligation period, within which funds can be obligated (i.e., committed to a contract).

The table below shows the obligation period for each appropriations category.

Appropriations Category	Obligation Period
RDT&E	2 years
Procurement Shipbuilding and Conversion, Navy (SCN)	3 years (5 years)
O&M	1 year
MILPERS	1 year

MILPERS	1 year
MILCON	5 years

[← Back to Topics List](#)
[↑ Back to Top](#)

## Funding Policies

As a measure of fiscal discipline and control, Congress specifies funding policies or rules for each particular appropriations category. These policies specify how the DOD computes the budget request for each appropriations category in a given year. These funding policies are called annual, incremental, and full funding.

When forecasting financial requirements for an appropriation, the applicable funding policy must be known. The table below specifies the funding policy that applies to each appropriations category.

Appropriation	Funding Policy
RDT&E	Incremental
Procurement	Full
O&M	Annual
MILPERS	Annual
MILCON	Full

## Annual Funding Policy

The annual funding policy governs MILPERS and O&M. The annual funding rule states:

"Request the Budget Authority necessary to cover all expenses for goods and services for that fiscal year."

\$K	FY96	FY97	FY98
Fuel	40	41	43
Spare Parts	15	17	18
Supplies	10	10	11
Maintenance	15	16	17
Training	5	5	5
	85	89	94

For FY96, an amount of \$85K would be requested.

## Annual Funding Policy Example

### Incremental Funding Policy

The incremental funding policy governs the RDT&E appropriations category. The incremental funding rule states:

"The annual increment for any RDT&E program element or project will be limited to the budget authority necessary to cover all costs expected to be incurred to support work to be performed during a 12-month period."

### Incremental Funding Example

The table below represents the different tasks in the development of an attack submarine. It indicates work completion dates and the estimated costs of that work for each year. RDT&E funds are budgeted only for the work expected to be performed each fiscal year.

<b>Attack Submarine (RDT&amp;E)</b>				
	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>
Hull	\$5M	\$5M	\$5M	\$3M
Powerplant	\$5M	\$20M	\$10M	
Electronics		\$10M	\$20M	\$20M
Armament	\$10M	\$30M	\$57M	\$10M
FY Budget Request (RDT&E)	\$20M	\$65M	\$92M	\$33M

For FY98, an amount of \$20M would be requested.

### Full Funding Policy

The full funding policy governs the Procurement (including Shipbuilding and Conversion, Navy [SCN]) and Military Construction appropriations categories.

The full funding rules states:

"Each year's appropriation request must contain the funds estimated to be required to cover the total cost to be incurred in completing delivery of a given quantity of usable end items."

For Procurement appropriations categories, deliveries must occur within a future 12-month period.

### Full Funding—Key Concepts

Full funding policy has three key concepts:

- [Usable End Items](#)
- [12-Month Delivery Period](#)
- [Budget for Fiscal Year of Contract Award](#)

### Usable End Items

The program budget is required to have all funds necessary to cover a given quantity of usable end items. This means that:

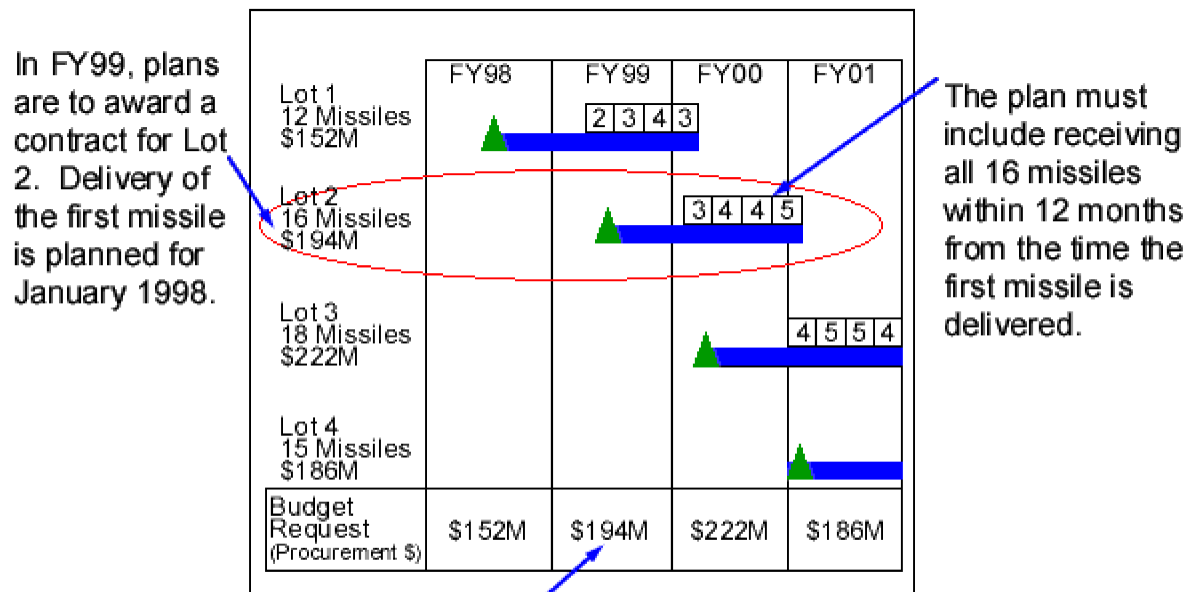
- Items must be bought as an "all-up" system and delivered as such.
- The DOD **cannot** budget for the hull one year, engines the next, electronics the next, and then plan on assembling all these parts into a ship in the fourth year.
- All items must be budgeted together as a Usable End item.

### Funded Delivery Period

The time from delivery of the first unit in a lot to the delivery of the last unit in a lot must not exceed 12 months.

### Budget for Fiscal Year of Contract Award

The funds must be budgeted in the fiscal year in which a contract award is anticipated. The following chart illustrates the full funding policy.



For FY99, an amount of \$194M in Procurement appropriations would be requested to fully fund the 16 missiles.

[Back to Topics List](#)

[Back to Top](#)

### What Is the Planning, Programming, and Budgeting System (PPBS)?

After the program has identified how much funding is needed for each appropriation category and year in the budget request, the next step is to get service/agency and eventually DOD approval to request those funds.

The DOD uses the PPBS to identify the fiscal needs of the services and decide how to allocate resources. It is an annual balancing act between requirements competing for limited funds.

[Back to Topics List](#)

[Back to Top](#)

### The Future Years Defense Program (FYDP)

The foundation of the PPBS is the Future Years Defense Program (FYDP). The FYDP is a computerized data base that summarizes the force structure, personnel strength, and financial resources of DOD. It is updated at selected times during the PPBS cycle.

The FYDP contains 11 years of data:

- Prior year
- Current year
- The two budget years
- Four outyears
- Three additional years of force structure only

[Back to Topics List](#)

[Back to Top](#)

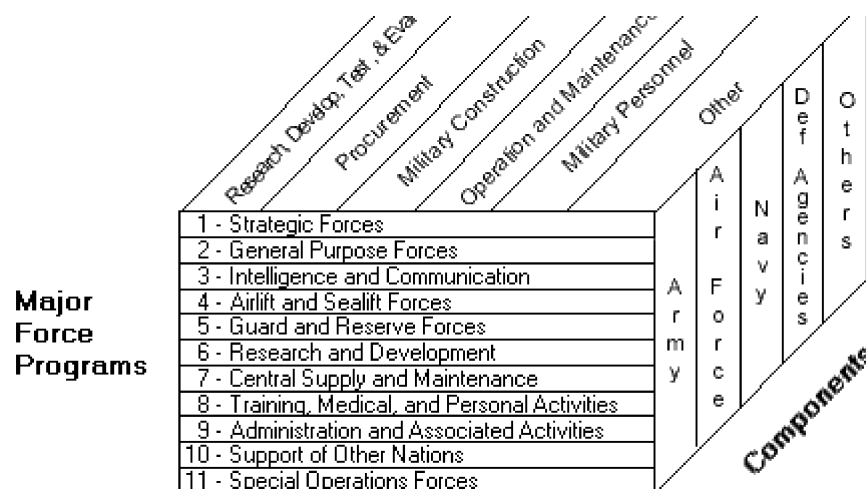
### Future Years Defense Program (FYDP) Structure

The data contained in the FYDP are organized in three different ways:

- Major Force Programs (MFPs)
- DOD Appropriation Categories
- Components (Services and Agencies)

The primary purpose of the FYDP is to summarize the:

- Force structure,
- Personnel strength, and
- Financial resources of DOD throughout the PPBS process



## DoD Appropriations

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### Major Force Programs (MFPs)

The FYDP organizes the data into 11 different MFPs that:

- Include all costs associated with a particular mission area (e.g., MFP3—Intelligence and Communications).
- May contain programs from different services and agencies, or from multiple appropriations.

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### DOD Appropriation Categories

Appropriation categories are the major funding classes by which Congress provides funds for all Federal agencies, including the DOD.

The FYDP tracks the DOD funds by appropriation category to align the President's Federal Budget with the congressional appropriations. Each appropriation category may include funding for different services or MFPs.

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### Components

The FYDP tracks funds for each of the three military services and other DOD agencies that request funding through the DOD PPBS process.

Each data set may contain funding from different appropriation categories and different MFPs.

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### PPBS Phases

The PPBS process is divided into three phases:

- Planning—"How much defense is enough?"
- Programming—"How much defense can we afford?"
- Budgeting—"Are we executing efficiently?"

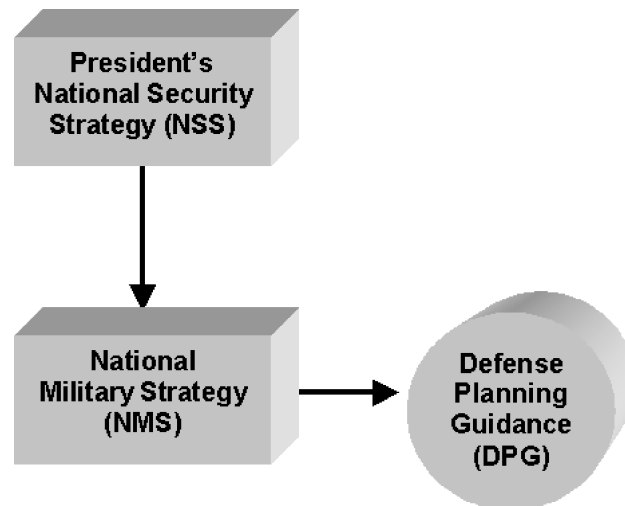
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### Planning Phase

The Planning Phase is controlled by the Under Secretary of Defense (Policy), and the purpose is to develop top-level policy guidance.

The primary product of this phase is the Defense Planning Guidance (DPG), which provides priorities and objectives for the service program requests. The following are key documents in the Planning

Phase.



### Planning Phase—National Security Strategy (NSS)

The Planning Phase begins with the President's National Security Strategy (NSS). The NSS details the top-level political, economic, and security strategy for the United States.

### Planning Phase—National Military Strategy (NMS)

The National Security Strategy provides input for the National Military Strategy. To produce the NMS, the Joint Chiefs of Staff (JCS) assess the evolution of the global threat, and changes in U.S. military strategy and policy. From this analysis, the JCS establishes military goals and objectives to meet the NSS.

### Planning Phase—Defense Planning Guidance (DPG)

The Planning Phase culminates in the publication of the Defense Planning Guidance. The DPG provides a strategic framework for developing the Service and DOD Agency program requests. The DPG is the result of planning efforts by the Joint Staff, Office of the Secretary of Defense (OSD), and the services/agencies.

 [Back to Topics List](#)

 [Back to Top](#)

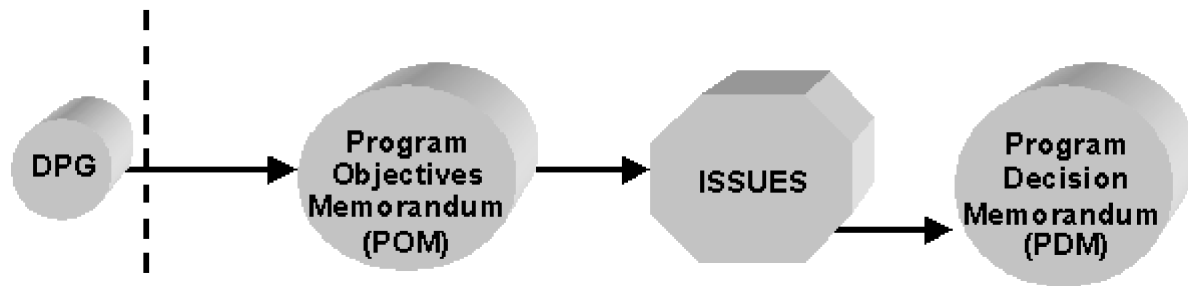
## Programming Phase

During the Programming phase, each service and agency recommends to the OSD the resource and program requirements it needs to support the goals specified in the DPG.

The Director, Program Analysis and Evaluation (PA&E) manages this PPBS phase.

The primary products are the Program Objectives Memorandum (POM) and the Program Decision Memorandum (PDM).





### Programming Phase—Program Objectives Memoranda (POMs)

- Each Program Office prepares a POM, based on program requirements.
- Each service and defense agency prepares a POM, documenting its fiscal requirements, based on input from the field and guidance from the DPG.

### Programming Phase—POM Issues

After the services and agencies submit their POMs, the OSD examines and proposes alternatives to balance the limited funding across the DOD and still achieve DPG goals. At this point, programs are prioritized to determine which ones best meet DOD goals at an affordable level.

### Programming Phase—Program Decision Memoranda (PDMs)

Changes to the service and agency POMs are documented in PDMs, which are issued by the Secretary of Defense. The PDMs approve the POMs, thus ending the Programming phase.

[← Back to Topics List](#)

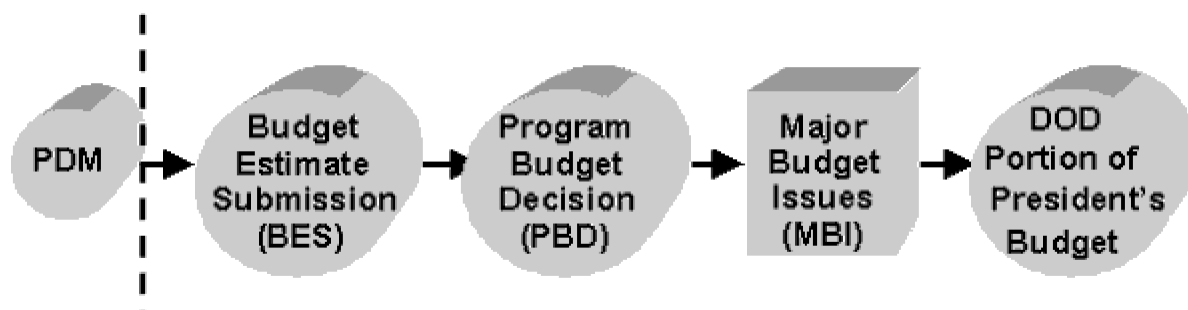
[↑ Back to Top](#)

## Budgeting Phase

The third phase of the PPBS process is the Budgeting Phase. This phase focuses on the effective use of funds and the balancing of limited funds.

The Under Secretary of Defense (Comptroller) is responsible for this phase.

Products of the Budgeting Phase are the Budget Estimate Submissions (BESs), Program Budget Decisions (PBDs), Major Budget Issues (MBIs), and the DOD portion of the President's budget.



### Budgeting Phase—Budget Estimate Submissions (BESs)

The changes to the service POM, including those in the PDM, provide the basis for each service's and defense agency's Budget Estimate Submission. Each service and defense agency specifies fiscal requirements for the next budget cycle to the OSD Comptroller.

### Budgeting Phase—Program Budget Decisions (PBDs)

- The OSD (Comptroller) reviews each program's input to the BES. The Comptroller verifies that each program will be able to use the funds requested.
- The OSD adjusts the programs' budgets by issuing draft Program Budget Decisions.
- Services and agencies are allowed to reclama the draft PBDs. The OSD reviews the reclama and makes final adjustments to the BESs. The decisions are issued as signed PBDs.

### Budgeting Phase—Major Budget Issues (MBIs)

Any major, unresolved issues are identified as Major Budget Issues. The issues are discussed and the Secretary of Defense makes a decision, which is issued as a signed PBD.

### Budgeting Phase—President's Budget

- Adjustments are incorporated into the President's Budget input.
- The DOD Budget is then sent to the Office of Management and Budget (OMB), which combines the DOD Budget with the rest of the Federal Budget.
- The OMB then sends the Federal Budget to the President for review. The President annually sends the Federal Budget to Congress on the first Monday in February.

 [Back to Topics List](#)

 [Back to Top](#)

## Congressional Review of President's Budget

After the President's Budget is submitted to Congress, three basic activities must be completed:

1. [Budget Resolution](#)
2. [Authorization](#)
3. [Appropriation](#)

Each activity has a specific objective and should be completed before the new fiscal year begins.

 [Back to Topics List](#)

 [Back to Top](#)

## Budget Resolutions

Budget Resolutions are passed by both Houses of Congress, but do not require the signature of the President. Resolutions set spending ceilings for each major appropriation.

 [Back to Topics List](#)

 [Back to Top](#)

## Authorization Bills

An Authorization Bill is an act of Congress that provides permission for a Federal program or activity to begin or continue from year to year. This type of bill sets staffing levels and system quantities, as well as limits on program funds. However, an Authorization Bill does not grant funding. Before becoming law, the Authorization Bill must be signed by the President.

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## Appropriations Bills

An Appropriations Bill is an act of Congress that provides budget authority and permits Federal agencies to incur obligations and make payments from the U.S. Treasury. Appropriations do not represent cash actually set aside in the U.S. Treasury. Rather, appropriations represent limitations on amounts that agencies may obligate during a specific timeframe. Before funds can be spent, an Appropriations Bill must be signed by the President.

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## Purpose of Congressional Committees

Each set of committees has a specific purpose and role in reviewing DOD budget requests.

Budget Resolutions	House and Senate Budget Committees
Authorization Bills	House National Security Committee and Senate Armed Services Committee
Appropriations Bills	House and Senate Appropriations Committees

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## House and Senate Budget Committees

The House and Senate Budget Committees set overall budget ceilings for the various "Major Appropriations." These committees are responsible for drafting the "Concurrent Budget Resolution." This resolution:

- Provides program approval.
- Must be passed by both Houses of Congress.
- Establishes Federal budget ceilings.
- Does not require the President's signature because it is not a law.
- Requires a 60 percent approval by both Houses of Congress if established ceilings are to be exceeded.

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## House National Security Committee (HNSC) and Senate Armed Services Committee (SASC)

These two committees:

- Review the President's Budget.
- Hold hearings on DOD appropriations.
- Draft the Defense Authorization Bill.

The Defense Authorization Bill must be passed by both Houses of Congress and signed by the President. This Bill also:

- Provides program approval.
- Specifies policies to be followed.
- Authorizes specific quantities of systems to be procured.
- Approves all new programs.

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## House and Senate Appropriations Committees

The House and Senate Appropriations Committees:

- Review the President's Budget.
- Hold hearings.
- Draft various Appropriations Bills.

These bills must be passed by both Houses of Congress and signed by the President. After being signed, appropriations bills establish the Budget Authority. The Budget Authority permits Federal agencies to incur obligations and make expenditures from the U.S. Treasury.

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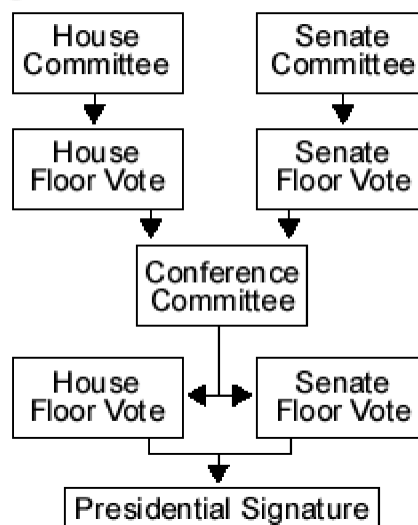
## Legislative Process

The Authorization and Appropriations Bills each must follow several steps:

- Each committee drafts legislation.
- Each Chamber votes on its version.
- The Conference Committee crafts a compromise between the two versions of the bill.
- Each chamber votes on the new version.
- The President signs the bill.

At each step in the process, the funding requests may be changed, on the basis of the perceived needs of the country and the political process. The end result is a series of laws authorizing and providing budget authority for DOD activities.

### Legislative Process for Each Bill



[← Back to Topics List](#)
[↑ Back to Top](#)

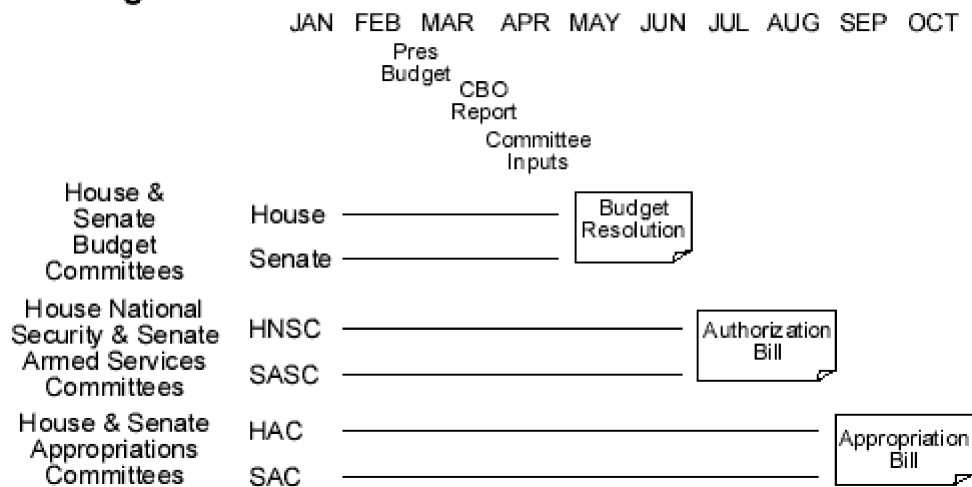
## Congressional Timetable

Congress receives the President's Budget and passes it to the various committees.

These committees draft the Concurrent Budget Resolutions, the Authorization Bills, and the Appropriation Bills that must be passed by Congress.

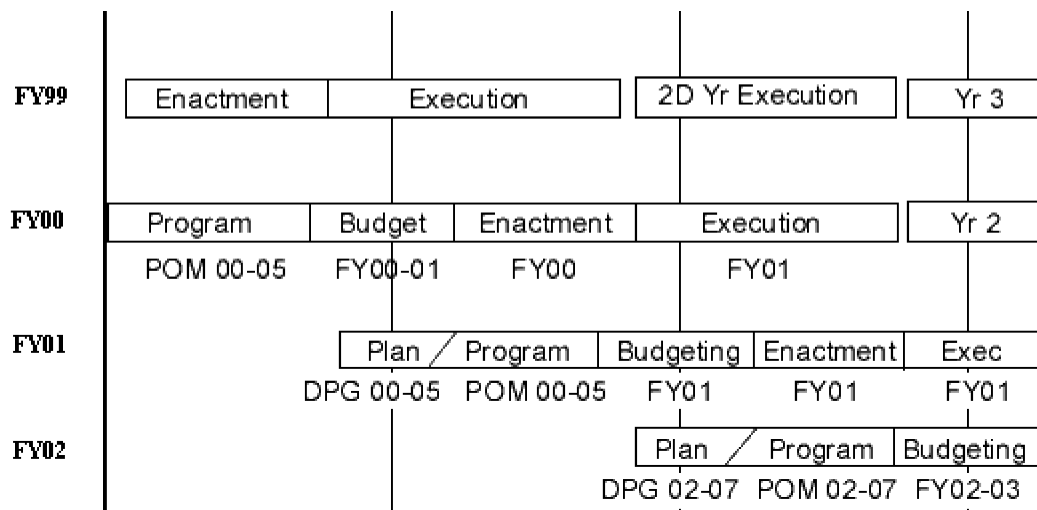
These activities overlap. The graphic below shows "ideal" timeframes.

### Congressional Timetable


[← Back to Topics List](#)
[↑ Back to Top](#)

## Annual Budget Overlap

At any given time during a calendar year (CY), activities involving different fiscal year (FY) budgets overlap. While one FY budget is being executed, the next fiscal year is being enacted, and the following fiscal year is undergoing a PPBS review. The chart below illustrates this overlap.



## ANNUAL BUDGET OVERLAP (Procurement Funds Example)

J F M A M J J A S O N D	J F M A M J J A S O N D	J F M A M J J A S O N D	J F
Execution	2D Yr Execution	3D Yr Execution	

FY98

[← Back to Topics List](#)
[↑ Back to Top](#)

### DOD Budget Reviews

DOD programs and budgets are reviewed and often adjusted on the basis of documentation and other factors. These reviews involve:

- Defending the program before different groups on an ongoing basis. The successful defense of a budget requires a clear and logical understanding of the process.
- Achieving a balanced and yet sufficient budget.
- Meeting national security objectives while operating within a fiscally constrained environment.

[← Back to Topics List](#)
[↑ Back to Top](#)